

Mr. Tim Schmidt  
Pork Producer from Sioux County, Iowa

STATEMENT OF TIM SCHMIDT BEFORE THE COMMITTEE ON AGRICULTURE,  
NUTRITION & FORESTRY UNITED STATES SENATE  
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Good morning Chairman Harkin and Members of the Committee. Thank you very much for inviting me to appear here today to discuss some of the changes and challenges occurring in the US meat production industry.

I am Tim Schmidt, a third generation pork producer from Sioux County, Iowa. My partners and I operate a 250 sow farrow-to-finish hog operation on a Century Farm. Prior to entering the partnership, I worked for a major packer in Nebraska for several years, and also for an Agricultural Co-op. The strength and vitality of the US pork industry is very important to me and I serve in a leadership role in my county Pork Producer Association.

My comments today are about market access and market price changes that I've seen in the industry, stemming from consolidation in the US packing business.

Over the years we've sold weekly loads of hogs after shopping around for bids from packers. 10 years ago, our farm could get multiple competitive bids from several hog buyers. Around 5 to 6 years ago, we began having a hard time getting more than one bid from a group of buyers. Since we were only getting one bid, we ended up selling mostly to just one buyer. Today it is almost impossible to get a competitive bid on the 80 hogs we sell every week. So I have a less competitive bid and fewer market options. When you only receive one bid, the market price liquidity is poor, and market price transparency is questionable at best.

So what changed between 10 years ago when bids were readily available and 5 years ago when they stopped? The packers began aggressively signing contracts for hogs with producers. Those contracts lock in hog deliveries to the buyers and push my cash sale hogs into a residual supply situation which drops buyers' interest in competing for my hogs.

The interesting thing about these contracts is that most of them have price components that are formulas based upon the open cash market. This means that those hogs get priced based on my residual supply. On rare occasions when the hog supply is really short, that spot cash market can spike higher, but when hogs are in adequate supply - which is most of the time - the market is residual and soft. A high supply of hogs can break the market downward hard.

The consolidation of hogs under contract has made the market less liquid and less reflective of the true value of the hogs.

Another point about changes in the approach of the packing industry revolves around our county pork producer association's annual market contest. Each year eight or ten producers would bring in 20 hogs each to a packer on the same day and at the same time. We would have the hogs processed and compare the carcasses to see how well we were marketing and how our hogs compared for meat performance. Because we scheduled the pigs well in advance the

packer always knew when the hogs were coming. They handled that as a spot cash sale. We stopped doing it because the packers wouldn't pay competitively the day the hogs were delivered. Association members, myself included, sold hogs to the same packer on that day that were not part of the market contest and received a higher market price. In essence the packer took advantage of our desire to improve our hogs and work together as a group. That was disappointing to those that participated.

Currently the Iowa legislature is debating a bill that would require meatpackers to buy 25 percent of their animals from non-affiliated livestock producers. The bill, SF 504, was passed by the Iowa Senate last month. It is currently awaiting action in the Iowa House.

I support the 25% open market bill because it would ensure more liquidity in the market and would ensure that contracts formulated off of the open market accurately reflect market conditions.

I also believe that in order to ensure true market transparency we need mandatory price reporting so that all hog prices are reported to the USDA and publicly reported each day. Factual information about all market price transactions - cash sales and contract deliveries - is an important key to market transparency.

Besides my personal issues, I am concerned about the next generation of hog producers. Without open, transparent and competitive markets the young men and women who are the future of our industry, will not have the opportunity to be independent pork producers. Without a level playing field, our rural youth with an interest in hog production will only have two options: work for an integrator or find another occupation. To limit their opportunity in pork production because we don't give them a free, open and transparent marketplace would be a real shame.

At issue today is not whether big farms or small farms are best. It's about independence and freedom that can only be achieved by having and maintaining a fair, free and honest marketplace. In order to have that, we need more open market transactions in a reportable and transparent market.

Thank you for listening, I appreciate this opportunity. If you have any questions, I'd be happy to answer them.